

# **CRYSTAL EXPLORATION INC.**

**Management's Discussion and Analysis  
For the three months ended May 31, 2016**

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This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the condensed interim financial statements of Crystal Exploration Inc. and the notes thereto for the three months ended May 31, 2016 and 2015 (the "Financial Statements"). Consequently, the following discussion and analysis of the results of operations and financial condition for Crystal Exploration Inc. ("Crystal", "CEI" or the "Company"), should be read in conjunction with the Financial Statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. The reader should be aware that historical results are not necessarily indicative of future performance. This MD&A has been prepared based on information known to management as of July 29<sup>th</sup>, 2016.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below. The Company assumes no obligation to update or revise forward looking statements to reflect new events or circumstances except as required by law.

## **GENERAL**

Crystal Exploration Inc. (TGD: TSXV) is a TSX Venture listed junior resource company and reporting issuer in the province of British Columbia. Its principal business is the identification, evaluation, acquisition and exploration of mineral properties.

As at July 29, 2016, Crystal has:

- no long term debt;
- 19,885,833 common shares issued and outstanding;
- signed a property purchase agreement to acquire a 100% Muskox and Hood River diamond projects located in Nunavut, Canada;
- has completed a mini-bulk sample on the Muskox Diamond Project;
- a financing in progress for gross proceeds of up to \$1,000,000.

### Muskox and Hood River Diamond Project in Nunavut, Canada

On May 6, 2015, the Company signed a property purchase agreement ("Agreement") to acquire a 100% interest in eight Prospecting Permits (the 'Property') totaling 1,150 km<sup>2</sup> located in Nunavut, Canada from private owners (the "Vendor"). As consideration, the Company paid a total of \$75,000 in cash and issued 500,000 common shares of the Company<sup>(2)</sup>. The Company further agrees to pay the following to the Vendor:

- Issue a further 500,000 common shares of the Company on or before May 15, 2016 (not issued). <sup>(1) (2)</sup>

<sup>(1)</sup> The Vendor has agreed to extend the issuance date of these shares indefinitely.

<sup>(2)</sup> Any shares issued in this transaction are subject to a four month hold period.

The Company capitalized certain acquisition costs of \$25,881 in relation to the Agreement. The Company has also agreed to pay the Vendor a 1% royalty interest on the Property. The Company also has the sole and exclusive option to purchase the NSR royalty interest at a purchase price of \$3,000,000 at any time.

The Company has also agreed to make the following additional performance payments to the Vendor, upon the completion of the following milestones:

- annual payments of \$50,000 on each anniversary date, August 5<sup>th</sup>, for the first four years, payable by the Company in either cash or common shares of the Company ("Performance Shares"), or any combination thereof, in its sole discretion;
- payment of \$50,000 for each new discovery of a kimberlite pipe or dyke on the Property, payable by the Company in either cash or Performance Shares, or any combination thereof, in its sole discretion;
- issue 500,000 Performance Shares on completion of an inferred mineral resource estimate by a qualified independent geologist or mining engineer of not less than 5,000,000 tonnes on each kimberlite pipe or dyke; and
- issue 500,000 Performance Shares upon completion of a feasibility study.

During the year ended February 29, 2016, the Company incurred \$12,820 in exploration costs on the property before the Agreement was entered into. Therefore, these costs have been expensed on the statement of comprehensive loss.

#### Mini-Bulk Sample

Samples for diamond processing were submitted to the Saskatchewan Research Council (SRC) diamond laboratory in January 2016, and in March 2016 Crystal announced diamond recoveries from samples DDH-MOX-004; DDH-MOX-025 and DDH-MOX-020. Later in March of 2016, Crystal announced additional diamonds recovered from the sample results. Three additional diamonds greater than 0.85mm were recovered which results in an increase to the overall grade. The diamonds were recovered through an audit of sample results that tested the combined x-ray tails and sort rejects, first by magnetic separation and finally by caustic fusion. The audit provides encouraging proof that a portion of the Muskox Kimberlite diamond population requires more processing optimization (a modified process flow sheet) to fully recover diamonds.

In total, three (3) samples were submitted for diamond processing (samples DDH-MOX-004; DDH-MOX-025 and DDH-MOX-020) and weighed 2200.40 kg, 2158.80 kg, and 2083.50 kg respectively (dry weight). Diamond recoveries from the samples include 16, 17 and 48 diamonds greater than 0.85 mm weighing 0.669, 0.675 and 2.376 carats, respectively. The samples graded 0.30, 0.31 and 1.14 cpt ("carats per tonne") respectively for each diamond drill hole. The largest diamonds recovered include 0.245 (MOX-004), and 0.365 and 0.253 (MOX-020) carats. The diamonds are described as off white, transparent with no to minor inclusions.

The results provide support that a portion of the diamonds recovered come from eclogitic nodules within the Muskox Kimberlite. Due to the physical properties of the eclogitic nodules/xenoliths, a modified process flow sheet is required to fully liberate the diamonds. Historical work at Muskox overlooked the importance and likely quantity of diamonds within xenoliths. The diamonds were not fully liberated from eclogite even after secondary crushing and grinding during processing.

At depths of nearly 300m, the recent samples are from some of the deepest holes drilled at Muskox with each holes MOX-020 and MOX-025 ending in kimberlite. More drilling is required to better define the pipe shape, grade and phases at depth at the Muskox Kimberlite and to discover new kimberlites within the Crystal land package/diamond projects.

The North Slave Craton is home to all three of Crystals' 100% owned diamond projects. The Muskox Kimberlite lies 14 km southwest of the formerly producing Jericho Diamond Mine and represents an opportunity to consolidate the Muskox – Jericho diamond camps into a brownfield project. The Jericho Diamond Mine last operated in 2012 and was a 225 person camp with all infrastructure and plant remaining in place. Diamonds were first discovered at the Muskox kimberlite pipe in 1996 by De Beers Canada. Exploration at the Muskox kimberlite continued until 2007 through a joint venture with Tahera Diamond Corp. Work did not resume beyond 2008 due to capital constraints, low diamond prices and the 2008 Financial Crisis.

At present within the Muskox prospecting permits there are a total of 136 airborne geophysical anomalies with approximately one hundred and thirteen (113) of the anomalies classified as unexplained. Of these, there are a total of fifteen (15) priority one (1) anomalies and thirty-one (31) priority two (2) anomalies that are all recommended for follow-up exploration.

The company will select additional material from the remaining thirteen (13) unsampled drill holes and begin a thorough evaluation of the Muskox kimberlite pipe. Future programs may include a Mineral Resource Estimate based on historical and new results and drill testing of priority kimberlite targets. This will include a detailed plan and budget with respect to further sampling/drilling at Muskox.

Crystal has commenced work to complete a 43-101 Technical Report. The Technical Report will focus on the Muskox Project and include kimberlite targets located at the Contwoyto Project and Hood River Project.

#### Financings in progress

On July 6, 2016, the Company announced a non-brokered private placement of up to 2,727,273 non-flow-through units ("NFT Units") at a price of \$0.11 per NFT Unit for gross proceeds of up to \$300,000. Each NFT Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.15 for a period of twelve months from the date of issuance of the warrant.

In addition to the NFT Units, the Company is offering up to 2,222,222 flow-through units ("FT Units") at a price of \$0.135 per FT Unit for gross proceeds of up to \$300,000. Each FT Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.15 for a period of twelve months from the date of issuance of the warrant.

The Company will grant an option to sell additional NFT Units to raise additional gross proceeds of up to \$500,000 NFT Units and grant an option to sell additional FT Units to raise additional gross proceeds of up to \$500,000 FT Units.

All securities issued will be subject to a four-month hold period. The offering is subject to the approval of the TSX Venture Exchange (the "TSXV") and finder's fees may be payable in accordance with the policies of the TSXV.

Proceeds from the flow-through and non-flow through private placement will be used to advance the Muskox, Contwoyto and Hood River diamond projects located in Nunavut, Canada. The remaining proceeds will be used towards general working capital.

## **FINANCIAL MD&A AND OTHER DISCLOSURE**

### **Selected Annual Financial Information**

<b>Year ended</b>	<b>Feb 29, 2016</b>	<b>Feb 28, 2015</b>	<b>Feb 28, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total assets (\$)	427,314	24,568	126,105
Mineral properties (\$)	364,729	-	-
Current liabilities (\$)	70,085	38,741	48,297
Total revenues (\$)	-	-	-
Net loss (\$)	(239,212)	(395,420)	(318,769)
Weighted average shares	16,686,669	14,232,363	8,462,500
Basic and diluted net loss per common share	(0.01)	(0.03)	(0.04)

### **Summary of Quarterly Results**

Selected unaudited financial data published for operations of the Company during the last eight quarters are as follows:

<b>3 months ended</b>	<b>May 2016</b>	<b>Feb 2016</b>	<b>Nov 2015</b>	<b>Aug 2015</b>	<b>May 2015</b>	<b>Feb 2015</b>	<b>Nov 2014</b>	<b>Aug 2014</b>
<b>(in Dollars)</b>	<b>(Q1)</b>	<b>(Q4)</b>	<b>(Q3)</b>	<b>(Q2)</b>	<b>(Q1)</b>	<b>(Q4)</b>	<b>(Q3)</b>	<b>(Q2)</b>
Net income (loss)	(48,012)	(147,611)	(45,992)	(40,855)	(4,754)	(117,009)	(58,201)	(123,650)
Basic and Diluted net income (loss) per share	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)

## **Results for the Quarter Ended May 31, 2016**

During the three months ended May 31, 2016 the Company reported a net loss of \$48,012 (2015 - \$4,754). Included in the determination of operating loss was \$1,844 (2015 - \$(570)) spent on office and administration, \$6,450 (2015 - \$(1,013)) on professional fees, \$1,839 (2015 - \$3,610) on transfer agent and filing fees, \$5,051 (2015 - \$1,710) on management fees, and \$33,581 (2015 - \$1,017) on advertising and promo. A non-cash recovery of \$753 (2015 - nil) was recorded for settlement of a flow-through liability.

## **Financial Condition, Liquidity, and Capital Resources**

Management closely monitors the liquidity and working capital position and expects to have adequate sources of funding to finance the Company's projects and operations. At July 29, 2016, the Company's working capital is approximately in a deficit position of \$70,000. The Company is in the process of closing a private placement, for gross proceeds of up to \$1,000,000, and expects closing to occur on or before August 8, 2016.

The Company currently has no source of operating cash flows and its operations have primarily been financed through the issuance of share capital.

## **Financial instruments and risk management**

The Company is exposed to the following financial risks:

- i) Market risk
- ii) Credit risk
- iii) Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

### General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board and the Company's finance function is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility and to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. Further details regarding these policies are set out below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: currency risk, interest rate risk, commodity price risk.

#### *Currency risk*

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's share capital as well as the Company's reporting currency is denominated in Canadian dollars. Management has assessed that the Company's current exposure to currency risk is low, but acknowledges this may change in the future.

### *Interest rate risk*

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be minimal.

### *Commodity Price Risk*

The Company's ability to raise capital to fund exploration activities is subject to risks associated with fluctuations in the market price of mineral resources. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

### Credit risk

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash are held with financial institutions in Canada.

### Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company monitors its risk by monitoring the maturity dates of its existing debt and other payables. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

To achieve this objective, the Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. Monthly working capital and expenditure reports are prepared by the Company's finance function and presented to management for review and communication to the Board. As at May 31, 2016, all of the Company's financial liabilities are due within one year.

### Determination of fair value

The statement of financial position carrying amounts for cash and accounts payable approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Financial assets and liabilities measured at fair value are grouped into three Levels or a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: unobservable inputs for the asset or liability.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

As at May 31, 2016:

Asset:	Level 1	Level 2	Level 3	Total
Cash	\$12,367	-	-	\$ 12,367

As at February 28, 2016:

Asset:	Level 1	Level 2	Level 3	Total
Cash	\$45,006	-	-	\$ 45,006

## Risk Factors

The success of the Company's business is subject to a number of factors, including but not limited to those risks normally encountered in the mining industry, such as market or commodity price changes, economic downturn, exploration uncertainty, operating hazards, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow.

The Company's prospectus dated August 10, 2012, available on SEDAR, includes extensive disclosure on material risks to the company's operations. Information concerning risks related to financial instruments is included in the Financial Statements.

## Related party transactions

Unless otherwise noted, related party transactions were incurred in the normal course of operations and are measured at the amount established and agreed upon by the related parties. The Company incurred and paid fees to directors and officers for management and professional services as follows:

For the three months ended May 31	2016	2015
Management fees paid to companies controlled by directors and officers	\$ 4,500	\$ -
Professional fees paid to a company controlled by an officer	6,450	-
	<b>\$ 10,950</b>	<b>\$ -</b>

## Key management compensation

Key management includes directors and key officers of the Company, including the President, Chief Executive Officer and Chief Financial Officer. The remuneration of key management personnel is summarized below:

For the three months ended May 31	2016	2015
Short term benefits	\$ 4,500	\$ -
	<b>\$ 4,500</b>	<b>\$ -</b>

At May 31, 2016, accounts payable and accrued liabilities included \$39,507 due to key management, directors of the Company and companies controlled by management or directors for services provided. Amounts due to related party are unsecured, non-interest bearing and have no specific terms of repayment.

## Outstanding Share Data

Crystal is authorized to issue an unlimited Class number of common shares without par value. As at the close of trading on July 29, 2016, the following common shares and warrants were outstanding:

Common shares issued	<b>19,885,833</b>		
Options outstanding	1,900,000	@	\$0.11 to January 15, 2021
Warrants outstanding	1,082,500	@	\$0.15 to July 13, 2016
	31,800	@	\$0.15 to July 13, 2016
	275,000	@	\$0.15 to September 18, 2016
	8,000	@	\$0.15 to September 18, 2016
Fully diluted	<b>23,183,133</b>		

**Additional Information**

Continuous disclosure relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Approval**

The Audit Committee on behalf of the Board of Directors of the Company has approved the disclosures contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.